



Audit Report



OIG-04-029

MANUFACTURING OPERATIONS: Control Weaknesses and Poor Management Oversight in the Mint's Purchase Card Program

March 2, 2004

Office of
Inspector General

Department of the Treasury

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Abbreviations

APC	Agency Program Coordinator
AO	Approving Official

Contents

FAR	Federal Acquisition Regulations
GAO	General Accounting Office
GPO	Government Printing Office
GSA	General Services Administration
OMB	Office of Management and Budget
SOP	Standard Operating Procedure
TD	Treasury Directive
TFM	Treasury Financial Manual

*The Department of the Treasury
Office of Inspector General*

March 2, 2004

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Since 1998, the Mint has been using Citibank's MasterCard to make micro-purchases. During fiscal year 2002, Mint purchase cards were used to make over 12,000 purchases totaling \$5.4 million. Purchase cards are available to federal agencies under a General Services Administration (GSA) SmartPay Master contract and may be used to make purchases with minimal paperwork. Individual agencies are required to administer their own purchase card program and set the parameters for use by authorizing employees, establishing purchase limits, and monitoring usage. The benefits of using purchase cards versus traditional payment processes are lower transaction processing costs and less "red tape" for both the government and vendors. While the purchase card program streamlines the government's acquisition processes, it is important that agencies have adequate internal controls in place to protect the government from fraud, waste, and abuse.

Given the inherent risk of, and in response to General Accounting Office (GAO) and Congressional concerns on the use of Government purchase cards, this review became part of the Office of Inspector General's (OIG) planned series of Treasury bureau-wide audits. Our objective was to determine whether adequate controls exist at the Mint to ensure Government purchase cards are being used for their intended purpose. The scope of review involved purchase card transactions that occurred in FY 2002. We conducted our work from September 2002 to March 2003 at all Mint locations in accordance with generally accepted government

auditing standards. A more detailed description of our objective, scope and methodology is provided in Appendix 1.

Results in Brief

We found that internal control weaknesses made the agency vulnerable to, and in some cases resulted in improper, wasteful, and questionable purchases. During our review, we found that the Mint: (1) did not comply with GAO/Treasury/Mint policies, directives and other sound management practices; (2) did not have adequate documentation to support all purchases; (3) made improper and questionable transactions; and (4) lacked a comprehensive training program.

The Treasury Financial Manual (TFM) and Treasury Directive (TD) related to Government purchase cards are intended to provide guidance in establishing adequate internal controls. In developing their own internal purchase card policy, the Mint has not included many of these core requirements.

In addition, we found that the Mint cardholders did not have adequate documentation to support all purchases. Specifically, of the transactions randomly selected, 23 percent were not recorded in a purchase log; 11 percent did not have a receipt; and 30 percent did not record when items were received. We recommend that Mint require receipts for all purchases, improve training, and hold both cardholders and approving officials accountable.

We judgmentally selected a number of transactions that appeared to have contradicted Mint purchase policy. These improper transactions include split purchases, ammunition, and travel expenses. We also noted the purchase of gift cards and certain food items that are questionable.

Our report contains recommendations that will improve the controls and oversight of the purchase card program. These recommendations involve modifying Mint purchase card policy; improving Agency Program Coordinator's oversight; developing enhanced training; and requiring improved documentation standards.

In its written response, Mint management appreciated our observations and recommendations and further agreed that agencies should have adequate internal controls in place to protect the Government from fraud, waste, and abuse. The Mint also stated that since the period covered by our audit, it has strengthened the controls over its purchase card program through improved training and issuance of new policies regarding monitoring, tracking, and approval of transactions, obtaining receipts, use of a purchase card log, and maintenance of records. However, they took exception to references in our draft report that the Mint must follow the guidance and standards provided in TD 76-04, *Government Purchase Card Program*, and GAO's *Principles of Appropriations Law*. TD 76-04 establishes policy for the use of purchase cards and applies to all bureaus and offices, without exception. Likewise, the language in 31 USC 5136, and TD 12-11, *Procurement Authority*, which exempts the Mint's program and operation-related procurement from provisions of law governing procurement or public contracts does not exempt them from internal Departmental directives that establish policy.

Although GAO's *Principles of Appropriations Law* is not binding, its guidance for the use of all public funds is persuasive. Our intent was not to create a debate as to whether or not the Mint must follow these criteria in managing its purchase card program, but rather to provide some widely accepted principles of sound management practices and standards of good internal controls. We believe that the issues, findings, and recommendations raised in this report could stand alone regardless of any criteria or best practices concept used, and appropriately, Mint management agreed with these recommendations and their written response provided their planned corrective actions. The complete text of Mint management's response is provided as Appendix 3.

Background

The Office of Management and Budget (OMB) established the Government Purchase Program in 1989 and requested that the Government Services Administration (GSA) administer the program under a single contract. As a result, the SmartPay® contract was created and competitively awarded to a few select commercial banks.

The SmartPay® contract has three components: 1) Purchase, 2) Fleet, and 3) Travel in order to meet different procurement needs. Currently the Mint, along with other Treasury bureaus, has contracted with Citibank MasterCard.

Once established, the Government purchase card program allows non-procurement personnel to directly make purchases at or below the micro-purchase threshold (currently \$2,500) without a competitive quotation if the cardholder determines that the price for the purchase is reasonable. In addition, the purchase card is encouraged as a payment mechanism for purchases up to \$25,000 with proper authority and documentation. This approach is intended to streamline payment procedures by minimizing paperwork and administrative costs.

Purchase Card Guidance

The *Treasury Financial Manual* (TFM) requires all offices and bureaus to have their own internal procedures for using purchase cards. The TFM also mandates specific processing and internal controls that must be in place prior to using the Government purchase card. Specifically, each office or bureau should: (1) establish a designated office to manage the program to insure that training is provided, maintain a current list of cardholders and approving officials, and perform an annual oversight review of the program; (2) provide for a written delegation of authority for each cardholder; (3) establish approved uses and limitations on the types of purchases and the dollar amounts; (4) establish procedures for timely submission of cardholder statements to the agency billing office; (5) establish procedures for maintaining security of the cards; (6) establish procedures for handling disputes and returned, refused, damaged, or unacceptable items and partial deliveries; and (7) establish card renewal procedures.

The Treasury Department issued *Treasury Directive 76-04, Government Purchase Card Program*, in April 2000 (TD 76-04), to establish the purchase card policy for all Treasury bureaus. TD 76-04 sets the micro-purchase limit at \$2,500; instructs cardholders to make an effort to use small, disadvantaged and/or women-owned businesses; and states that training should include information on procurement regulations in the small business

program and the environmental affirmative procurement program. Additional guidance concerning purchase cards is shown in *Treasury Directive 78-01, Printing and Publishing Management Program*, issued in February 2000 (TD 78-01). TD 78-01 prohibits the use of Government purchase cards to obtain printing and duplicating services, except for authorized purchases from the Government Printing Office (GPO) or purchases covered by waiver.

The Mint established its own purchase card policy with *POLICY MEMO PROC-15, Purchase Cards* issued September 20, 1999 with a subsequent revision on March 7, 2001. This policy differs in certain aspects from TD 76-04. The Mint's micro-purchase limit is \$5,000 (twice the amount set in TD 76-04) and the Mint policy does not restrict sources of procurement or encourage cardholders to purchase from small, disadvantaged and/or women-owned businesses. The justification that the Mint gives for this deviation is that *The Mint Public Enterprise Fund* exempts the Mint from the Federal Acquisition Regulation (FAR), which deals with acquisition law. Two other Mint policies that address purchase card use are *Memo DIR-10, Purchase of Food and Beverages*, issued February 14, 2001, which requires pre-approval for refreshments and luncheons, and *Memo CFO-PROC-06-R, U.S. Mint Procurement Guidelines*, issued December 3, 1999, which makes the purchase card the preferred purchase/payment method for commercial items valued up to \$5,000 and states that competitive quotes are generally not sought for such purchases. The Mint's *Purchase Card Handbook* incorporates these policies and serves as the primary training tool for cardholders and approving officials.

GSA also provides training that is available to cardholders, approving officials, and program coordinators. For example, GSA's *Blueprint For Success: Purchase Card Oversight* was prepared by a working group of agency program coordinators (APC) and provides general program guidance to APCs in performing their job responsibilities. GSA also offers SmartPay online training designed to help cardholders and Approving Officials (AOs) understand the program and their responsibilities.

Purchase Card Program Participants Responsibilities

Agency Program Coordinators (APC) are responsible for setting up and maintaining all accounts, developing internal program guidelines and procedures, ensuring that cardholders and approving officials receive proper training, and monitoring for fraud and abuse. Each agency must designate an APC to function as the agency's primary liaison to the contract bank and to GSA. The Mint has one lead APC in Washington and four regional APCs in Philadelphia, West Point, Denver, and San Francisco. The Washington APC monitors the cardholders at Fort Knox. Each regional APC acts relatively independent from headquarters.

Cardholders are responsible for understanding and complying with purchasing policies and procedures, maintaining records and receipts of all purchases, reconciling their purchases to their monthly statements, and preparing and submitting required property management forms for assets purchased. Each cardholder's designated approving official is responsible for reviewing the cardholder's transactions to assure they are properly documented, comply with purchasing policies, and are necessary for accomplishing the mission of the agency. Approving officials are also responsible for reporting fraudulent or improper use of the card.

During FY 2002 the Mint had 268 cardholders who made approximately 12,000 purchase transactions valued at over \$5.4 million. As of September 30, 2002, 210 of approximately 2500 Mint employees (8%) currently had purchase cards, most of which had single purchase limits of \$5,000 (range between \$200 and \$100,000) and a monthly purchase limit between \$200 and \$540,000.

Findings and Recommendations

Finding 1 Inadequate Controls Leaves the Mint Vulnerable to Misuse and Potentially Fraudulent Purchase Card Transactions

The Mint did not incorporate certain TFM-mandated requirements into its own purchase card program. The reason for this condition may be that the Mint management does not believe it has to comply with Treasury purchase card guidance because of the Mint's Public Enterprise Fund, which exempts the agency from procurement laws. However, we believe that this waiver does not exempt it from Treasury policies that were intended to provide adequate internal controls of the purchase card program. As a result, the risk of fraud, waste, and abuse is elevated.

To determine whether the Mint adequately addressed the mandatory purchase card program requirements, we reviewed its purchase card program policies and procedures along with any local guidance; analyzed training information; and assessed reviews conducted at the various field locations.

We found that the mandatory requirements were either not considered or adequately addressed.

We found five areas in which the Mint does not adequately comply with the TFM or sound management control practices.

Specifically, (1) Agency Program Coordinators do not consistently conduct adequate annual reviews and maintain adequate records; (2) approving official oversight is lacking; (3) unauthorized card sharing occurs; (4) written delegations of authority are not issued to all cardholders; and (5) purchase cards are not properly secured.

The TFM prescribes program requirements that all Federal agencies must establish prior to use of the Government purchase card. Specific purchase card program controls mandated for all agencies include: (1) annual oversight reviews; (2) each agency is to maintain a current list of cardholders, their purchase limits, and approving officials; (3) cardholder statements are to be reviewed by

the cardholder and approving official before being sent to the designated billing office for payment; (4) the cardholder is the only authorized user of the card; (5) written delegation of authority given to each cardholder; and (6) purchase cards are to be secured in a safe when not in use. TD 76-04 reiterates many of these mandates.

Details of the conditions we found in the five mentioned areas follow.

I. APC Oversight is Lacking

APCs are not adequately monitoring the purchase card program. Specifically, APCs are not (1) consistently conducting adequate annual reviews, and (2) maintaining adequate records. We believe the reason for these deficiencies is a lack of national oversight and accountability.

1) Annual Reviews. The TFM states that the office managing the program will make assurances that there is an annual oversight review of the program. The purpose of a comprehensive review is to identify and correct program weaknesses. In an effort to assist agencies in achieving this criterion, GSA offers a guide on creating a standardized annual review policy. The guide is designed to document findings and identify problem areas. The Mint does not have program review guidelines and APCs do not consistently conduct adequate annual reviews.

Three of the five APCs stated that they did not conduct annual reviews of the program. Of the two that said they did conduct annual reviews, only one could provide written evidence of the results. However, all APCs said that they conducted monthly or quarterly reviews by scanning purchase card transaction data looking for suspicious or unusual activity. Most APCs stated that if a questionable purchase is discovered, the cardholder was contacted and verbally counseled. At three of the locations, the APC also informed the approving official of an improper transaction. However at the other two locations, only the cardholder was notified. At one of these locations, the 2001 annual review found that 21% of cardholders reviewed failed to follow Mint purchase card procedures (splitting purchases, lack of

documentation, and an inappropriate purchase). Although these cardholders were counseled, there is no indication that their AO or supervisor was informed. Another location conducted a limited review, which found cardholders who did not follow Mint purchase card procedures. However, individual cardholders were not identified by name, making it difficult to discern accountability.

During these informal reviews, APCs stated that they make notes of problem areas. While this method has some merit, it is not an acceptable substitute for a structured, documented annual review. The lack of written documentation of these informal monthly reviews makes verification difficult in addition to difficulties in tracking issues and following up on potentially abusive cardholders. Since there is no national oversight, APCs are not held accountable for conducting annual reviews. It is left to the discretion of each APC to take initiative and conduct their own review in whatever form they choose. As a result, for the calendar years 1999-2002, no location consistently conducted an annual review. The reviews conducted were considered insufficient because the scope and methodology was undefined; findings were vague; often no recommendations were given; and there is no indication that any follow-up was conducted.

The effect of not conducting adequate annual reviews is that the program is not being adequately monitored. For example, there is no evidence that the Mint was reimbursed after a cardholder was counseled for purchasing flowers for a co-worker.

2) Record Maintenance. We found a general lack of record maintenance. Some APCs could not easily determine all of the following information: cardholder name, approving official name, purchase limits (single, monthly, and convenience check limits), account number, date training was received, if any improper transactions or other deficiencies had occurred, follow up or disciplinary action taken, and finally, when an account was closed and the card destroyed. While the quality of record keeping varied among APCs, overall, improvements could be made. Specifically, improvements could be made in the areas of (a) cardholder files, (b) cardholder and AO lists, and (c) closing of accounts.

a) Cardholder Files. Generally, we were unable to determine when cardholders were trained; who their approving official was at different times; what their purchase limits were at different times; or if there were any improper transactions. This data was found in such ad hoc sources as training sign-in sheets, emails, and APC notes. The overall condition of these files makes monitoring the program more difficult. In addition, it is unclear if all verbal admonishments were documented. For example, one cardholder stated that she had accidentally used her government purchase card for personal use (Citgo, \$13.45) and had reimbursed the Mint. Because the APC does not keep individual cardholder files, this occurrence may not have been recorded for follow-up and tracking purposes. The annual review conducted by the APC did not mention any verbal admonishments given during the year. In cases of multiple abuses, appropriate disciplinary action may be complicated by the lack of written documentation. With the inherent risk of purchase cards, a simple verbal admonishment of "Don't do it again," is insufficient.

b) List of Cardholders and Approving Officials. The TFM requires agencies to maintain a current list of all cardholders and approving officials. We believe that the Mint should maintain its own lists of information to serve as a check against bank records. We found that the two largest locations relied exclusively on Citibank's website to access cardholder and approving official data. An APC at another location had an independent list, but it was difficult to review because of illegible handwriting and lack of descriptive column headings. Having an accurate, easily retrievable and readable list is necessary for proper monitoring of the purchase card program.

c) Closed Accounts. TD 76-04, *Government Purchase Card Program*, requires each agency to set up a system to control revocation of cards. While the Mint's training materials state that purchase cards are to be returned to the APC if a cardholder leaves the Mint, there was no documentation on the destruction of any of the cards. In one case, a cardholder whose account had been closed was still in possession of her card. Another issue concerning closed accounts is record

retention. We had difficulty locating records of cardholders who had left the Mint. At one location, purchase records of former Mint cardholders were often missing and the Accounting Office did not have any back up copies. At another location, cardholders had destroyed all their purchase card records prior to leaving the Mint, but copies were found in the Accounting Office.

The apparent cause of these deficiencies is that there is a lack of emphasis on the purchase card program. APC duties are often considered collateral duties. Four of the five APCs stated that they are not rated on their purchase card duties during their annual evaluation.

II. Approving official oversight is lacking

AOs are the first level of approving authority to ensure against improper purchases because they have detailed knowledge of the type of products and services the cardholders should be purchasing. This internal control is crucial and TD 76-04, *Government Purchase Card Program*, requires cardholder statements to be signed by the AO before being sent to the designated billing office. However, we found the Mint's supervisory review process was inadequate for ensuring that purchases were proper. Specifically, we found numerous transactions that had the following control deficiencies: (1) no evidence of an AO signature; (2) approved transactions that lacked key supporting documents; (3) were not in compliance with one or more policies or procedures; or (4) were wasteful or unnecessary purchases.

Although the Mint Purchase Card Handbook states that AOs will review and approve cardholder purchases, this was not consistently done. Specifically, in our statistically based sample of the 299 purchase and credit transactions, 24 percent lacked written evidence of AO review. (Washington had an error rate of 69 percent). Based on the results of our review of these transactions, we estimate that 3,225 transactions during FY 2002 lacked proper approval. We also randomly selected 66 transactions that were judged to have a higher susceptibility to being improper, and found that 51 percent of the dollar amount spent also lacked

evidence of AO review. From this we can project, with 90 percent confidence, that over \$400,000 in purchases were not properly approved.

While Mint policy allows AOs to approve purchases under \$100 without a receipt, we found that 3 percent or 7 of the purchases reviewed were approved despite being in excess of \$100 and lacking a receipt. These transactions ranged in dollar value from \$112 to \$9,059. The largest dollar items lacking receipts include:

- Stanley Storage System \$9,059
- McMillan Bros. Electric \$4,914

One factor that might contribute to the Mint's inadequate AO review is that there is no accountability for AOs that do not challenge improper purchases. For example, at one location where an APC had conducted an annual review and found improper transactions (split purchases) in two consecutive years, the cardholder was counseled but there was no mention of the AO having been given similar feedback. Because the AO review is the first, and sometimes only, line of review for detecting improper transactions, it is critical that AOs perform and document adequate, timely reviews.

III. Unauthorized Card Sharing

The TFM states, "*The card bears the employee's name and can be used only by that employee for official purchases...*" We found that of the 132 cardholders asked nationwide, 30 percent told us that they allow others to use their card.

The Washington APC gives cardholders the option of allowing others to use their purchase cards. The result is that 60 percent of Washington cardholders said that others use their card. All regional APCs stated that they disallowed card sharing. Despite the APCs' disapproval, we found two locations where card sharing occurred. At one location 41 percent of cardholders stated they shared their cards, while at the other location 10 percent did so.

In addition, we found that 2 percent of the cardholders stated that they allow their AO to use their card. As a result, there is no separation of duties. In one case, between the cardholder's last day of work and the closing of the account, there were 11 purchases totaling \$3,191. We selected one of these transactions (\$600 at Radio Shack) for review and found no support documents nor any record of the purchaser's identity. In another case, a cardholder allowed up to 13 staff members to use his card.

Cardholders are responsible for purchases on their account. At the same time, some Mint business units expect cardholders to allow others to use their card if the cardholders are not available to make the purchase themselves. As a result, some cardholders expressed discomfort in allowing others to use their card. Cardholders should not be placed in such a compromising position. In addition, untrained persons should not be unofficially delegated purchasing authority. The practice of card sharing leaves the Mint vulnerable to abuse.

IV. Lack of Written Delegation of Authority for Cardholders

A good system of internal controls, in addition to the TFM and TD 76-04, require agencies to issue written delegation of authority to each cardholder. A typical written delegation of authority informs a cardholder of their single purchase limit, monthly purchase limit, and assigned AO, as well as impresses upon them the importance of their duties and responsibilities. Only one APC has issued a written delegation of authority for all of their cardholders. At another location, the APC has begun issuing designation letters to cardholders; however, at the time of our interviews, 45 percent of cardholders stated that they had not received a written delegation of authority. Nationwide, we found that of the 130 cardholders interviewed, 72 percent did not have written delegations of authority. We believe that this condition has resulted in a significant portion of cardholders not being aware of their purchase limits and designated AO. Of the 73 current cardholders interviewed, we found:

- 16 percent stated that they did not know their single purchase limit, while another 16 percent gave incorrect responses.

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- 26 percent stated that they did not know their monthly purchase limit, while another 16 percent gave incorrect responses.
 - 20 percent did not accurately name their assigned AO.
 - The CitiBank Declined Authorization Report revealed 34 occasions when a cardholder attempted to exceed their single purchase limit and 279 occasions when a cardholder attempted to exceed their monthly purchase limit. This finding is an indication that either cardholders do not know their limits or are not tracking their purchases well enough to know their available credit line.

V. Lack of Security Over Purchase Cards

A basic tenet of a system of internal controls is to safeguard assets. In addition, the TFM states that purchase cards are to be "*safeguarded in the same manner as cash*", which is later defined as "*in a safe*" in the Cashier's Manual. Mint cardholders are instructed in the *Purchase Card Handbook* to keep their cards *in a safe place*. The Washington APC explained this to mean a locked drawer or on their person.

Our review showed only 4 percent of the cardholders properly secured their purchase cards in a safe. Eleven percent had their purchase card stored in an unlocked drawer and thirty-three percent kept their Government purchase card in their wallet or purse commingled with personal credit cards. Our review disclosed an instance of a Government purchase card being mistaken for a personal credit card and used for a personal purchase. We observed three purses containing Government purchase cards left unsecured within the office. One cardholder could not produce their card, explaining that they had left it at home. During FY 2002, we noted that one purchase card was stolen and one purchase card was lost. Dealing with lost or stolen cards, along with unintentional usage, increases the maintenance cost of the program and makes the Mint vulnerable to fraudulent charges.

Recommendations

The Director of the Mint should:

1. Establish annual review and record maintenance guidelines to each individual APC.

Management Response

The Mint agrees with the recommendation. By the end of January 2004, the Mint's Procurement Policy, OCFO-PROC-15, will be revised to mandate an annual review by each local purchase card coordinator and that proper documentation is maintained for each purchase.

OIG Evaluation

We believe this recommendation to have a management decision.

2. Instruct each individual APC to contact and inform AOs of improper transactions and hold them accountable for their cardholders. Also have a policy in place requiring documentation of offense and establish disciplinary guidelines.

Management Response

The Mint agrees with the recommendation. By the end of January 2004, the Mint's Procurement Policy, OCFO-PROC-15, will be revised to identify appropriate disciplinary actions to be taken by Mint management. If the appropriate officials do not take action within 10 days of notification, the matter will be brought to the attention of the Mint's Chief Financial Officer.

OIG Evaluation

We believe this recommendation to have a management decision.

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3. Prohibit card sharing.

Management Response

The Mint agrees with the recommendation. By the end of January 2004, the Mint's Procurement Policy, OCFO-PROC-15, will be revised to prohibit the sharing of purchase cards among employees. The revised policy will require that emergency purchase needs be brought to the attention of the servicing Procurement office for assistance.

OIG Evaluation

We believe this recommendation to have a management decision.

4. Require that each cardholder acknowledge, in writing, that they have been informed of their responsibilities, purchase card limits, and the name of their approving official.

Management Response

The Mint agrees with the recommendation. The Mint plans to include a tear-out sheet in the 2004 Purchase Card Handbook to serve as a signatory audit trail. By signing this sheet, each cardholder will acknowledge he or she has been informed of his or her responsibilities, card limits, and the name of his or her approving official. The 2004 Handbook is scheduled for issuance and distribution in February 2004.

OIG Evaluation

We believe this recommendation to have a management decision.

5. Train cardholders to store their purchase cards in a safe, or at the very least a locked drawer at work, when not in use.

Management Response

The Mint agrees with the recommendation. By the end of January 2004, the Mint's Procurement Policy, OCFO-PROC-15, will be revised to require purchase card holders to keep their purchase card in a locked drawer in their office when not in use.

OIG Evaluation

We believe this recommendation to have a management decision.

Finding 2

Purchase Card Transactions Are Not Properly Recorded and Documented

The ability to verify whether a purchase is proper is dependent on the availability of support documents. Verbal assurances are not adequate. Signed monthly statements, receipts, purchase logs, and written approved justifications for normally prohibited items are essential documents if assurances are to be given that a purchase card program has adequate controls. We found a number of areas where support documentation was lacking or could be improved. Specific areas of improvement include: (1) increased effort to retain itemized receipts; and (2) completion of purchase logs.

Retention of Itemized Receipts. As a general rule, cardholders are to attach all receipts to their monthly statement before passing the support documents to their AO and ultimately the billing office. However, Mint policy states that AOs, APCs and the Office of Accounting have the discretion to approve and pay when receipts are not available and/or when discrepancies in billing are within a tolerance of 100 percent of purchase price, not to exceed \$100. Because the receipt serves as verification of the items bought as listed in the purchase log, we believe the document should be required for all purchases, regardless of amount. Documents that do not list items purchased, such as a credit card slip, which only shows the merchant name and total amount spent, or a printout of a "shopping cart" list when purchasing online, do not provide the same level of documentation as to the propriety of a purchase as an itemized receipt. Ideally, the receipt should be signed by the

cardholder to verify that all items were indeed received. We found that 11 percent of purchases in our statistical sample lacked receipts. Based on this condition, we can project that 1,478 transactions did not have a receipt. The majority of these occurred in Washington where 26 percent of transactions lacked receipts. This same location did not require cardholders to pass their receipts on to the Accounting Office. Purchases within our statistical sample that did not have a receipt include:

- Mid City Camera \$89
- Office Depot \$112
- Wal-Mart \$27

We also discovered that of the 11 percent of purchases that lacked receipts, 64 percent of these transactions also did not have an AO signature. Some examples include:

- Washington Music Center \$4,009
- Washington Spring Auto Repair \$979
- Rainbow II (Down payment for a fundraising outing-fishing trip for Mint employees) \$300
- Linens N Things \$185
- Oriental Trading Company \$135
- Radio Shack \$54
- World Market \$51
- Best Buy \$31

Purchase cards are vulnerable for abuse when cardholders are not held accountable by their AO to retain itemized receipts.

Lack of Purchase Logs. Mint purchase card training materials that were developed by the Washington APC and a Citibank representative in 1999 instruct cardholders to keep a log of their purchases. Purchase logs are a best practice for purchase card programs because they are designed to capture essential information that may not be available elsewhere such as what was purchased, when it was ordered, and when it was received. During our review, we specifically looked to see if the date an item was received was recorded. We found that 30 percent or a projected 4,031 of purchase documents examined lacked this

information. This condition was due in large part because of the lack of purchase logs. We found that 23 percent or a projected 3,090 transactions in our statistical sample were not logged. Of those not logged, about 76 percent occurred in Washington. Two locations had all their purchases logged.

Without documentation, one could not discern if, or when, a paid item was received. Most cardholders stated either they remember receiving the item, or if it were sent to the requestor, they would have been contacted if the item did not arrive. Without using logs, a comprehensive audit trail of purchased goods or services leaves the Mint vulnerable to fraud and abuse.

Recommendations

The Director of the Mint should:

6. Modify policies and procedures instructing cardholders to make every effort to obtain and retain original, itemized receipts, even if it is under \$100. Cardholders should be instructed to sign receipts indicating that all items were received. AOs should not approve purchases exceeding \$100 without a receipt.

Management Response

The Mint agrees with the recommendation. Mint-Wide Policy Memo CFO-ACCT-06/13/03 directs cardholders to obtain receipts for purchases and submit these receipts along with their purchase card log and bank statement to their approving official. By the end of January 2004, the Mint's Procurement Policy, OCFO-PROC-15, will be revised to direct cardholders to obtain a receipt for all purchases, regardless of the dollar amount. In addition, the revised OCFO-PROC-15 will re-emphasize the requirement that cardholders maintain and provide copies of all supporting documentation to their respective approving official.

OIG Evaluation

We believe this recommendation to have a management decision.

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7. Conduct periodic reviews to ensure that cardholders are completing their purchase logs in a timely manner.

Management Response

The Mint agrees with the recommendation. Mint-Wide Policy Memo CFO-ACCT-06/13/03 directs the approving official to review and confirm the accuracy of each cardholder's purchase card log. In addition, by the end of January 2004, the Mint's Procurement Policy, OCFO-PROC-15, will be revised to require the timely submission of the documentation required for payment to the Office of Accounting.

OIG Evaluation

We believe this recommendation to have a management decision.

Finding 3

Improper and Questionable Purchases Are Not Identified and Addressed

Mint policy prohibits cardholders from purchasing certain items, including gifts for separating employees, travel expenses, gasoline or oil, weapons and ammunition. Split purchases are also specifically prohibited. In addition, food purchases are permitted only when granted pre-approval by an Associate Director or Plant Manager. Finally, using purchase cards to pay for printing and publishing costs is against Treasury policy.

In our review of sampled transactions, we found a number of transactions that appear to have not complied with Mint or Treasury policy. While some cardholders claim to have been granted verbal permission for a restricted purchase, there was no documented approval. For example, one cardholder who had spent \$115 at a Shoppers Grocery Store on food items did not have written pre-approval as required.

We have categorized examples of these improper and/or questionable purchases:

Splitting Purchases. Mint training materials specifically prohibit splitting purchases to enable a purchase amount to be within a

cardholder's limit. Despite this prohibition, we found 15 purchases, totaling over \$100,000 that we determined to be split purchases. Ten of these split purchases occurred in Philadelphia. Also at this same location, we found a trend where large purchases were split between two different cardholders in the same division. An example of a split purchase is \$5,431 spent at Moviegift. The cardholder had a \$3,500 single purchase limit. An attempt was made to process the entire transaction. After the transaction was automatically declined, the transaction was split into \$3,121 and \$2,310, which allowed the purchase to be processed. We believe that these split purchases may be caused by either poor AO oversight or that AOs overlook the practice. This practice does not allow competitive quotes to be obtained for products and services exceeding \$5000 as required.

Food. Since February 2001, the Mint has required advance written approval by an Associate Director or Plant Manager for catered light refreshments or luncheons. The purpose of pre-approval is to give assurances that the purchase is proper. Mint Form 1013 is used to provide the purpose, details, attendees, and justification for the purchase. We examined Citibank transaction data and identified 215 food purchases worth over \$51,000 by isolating food related merchants such as restaurants and grocery stores. We judgmentally selected and examined 50 food transactions, totaling over \$25,000. Of these, 70 percent did not have the proper pre-approval.

Examples of food purchases without pre-approval are Furins of Georgetown (\$1,850) and Warner Theater Café (\$638).

In addition to not having written pre-approval, 14 percent of the food purchases reviewed also did not have a receipt and there was no AO signature. For example, a purchase at Margarita Man and two other purchases at Giant Food had no documentation. Also, three transactions totaling \$638 at Warner Theater Café not only lacked documentation, but also the cardholder claimed to have no knowledge of the purchases. Another 6 percent had an AO signature but no receipt or written pre-approval. Examples include Casual Catering (\$224) and Old City Pizza (\$509), which occurred on a Sunday.

Typically, food purchases for Government employees are restricted to limited situations. GAO's *Principles of Appropriation Law* outlines the conditions that must be met for food purchases to be considered acceptable. For example, refreshments at an awards ceremony or official reception may be permissible, but coffee for employees on a routine basis is not. Therefore, advance written approval does not necessarily make a food purchase proper. For example, we found written approval justifying pizza as, "*To speed the recovery from blood drive.*" The actual amount spent (\$210) exceeded the approved amount by 68 percent. Another food reward for participation in a volunteer activity was catered refreshments from Furin's of Georgetown (\$335) for participants of the Combined Federal Campaign.

Another case of where approved food purchases may have contradicted government restrictions is in the area of Equal Employment Opportunity (EEO) events. EEO objectives are to increase employee appreciation for the cultural heritage of differing ethnic groups. It has been determined that ethnic food samples (not meals) may be served if they serve an educational, and not merely entertainment, function. Therefore the purchase of non-alcoholic margaritas for Hispanic Heritage Month may be justified. However, the appropriateness of purchasing cake and punch for Disability Awareness Month that cost \$61.72, and salads for Women's History Month that cost \$1,188.85 is not as clear and should be justified.

Although funds spent on employee appreciation meals are allowable, collectively the amount spent appears excessive. Of the \$26,000 in food purchases reviewed, \$13,000 was spent at one location for performance achievement and appreciation related meals. One of these was an employee appreciation lunch for 410 people costing \$9,661.

Gifts and Gift Certificates. We noted that GAO previously reviewed the Mint's practice of giving complimentary specimens or commemorative coins and medals to customers whose orders had been mishandled and found it to be justified. But, we questioned the necessity of giving non-merit gifts to employees and the volume of gift cards given. We noted that the Mint's Public

Enterprise Fund statute, 31 USC 5136, generally states that provisions of law governing procurement or public contracts will not be applicable to the procurement of goods and services necessary for carrying out the Mint's programs and operations. But, the practice of giving non-merit gifts to employees, in our opinion, is not justified as a good business practice, or as necessary for carrying out its programs or operations.

Non-merit gifts to employees include:

- Gift cards given to participants of the Combined Federal Campaign (\$200).
- Coffee mugs given to customer care staff after moving into the HQ office (\$304).

While merit based gift certificates may be permissible, such purchases may appear improper when given in large amounts. At one location, we found the following gifts and gift cards totaling \$7,629:

- Movie tickets and concession certificates (\$5,431).
- Gift cards (Blockbuster, Warehouse Music & Target) for implementation of beneficial suggestions (\$783).
- Gift cards (Jamba Juice) for teamwork improvement (\$500).
- Incentive gifts to employees (Big Lots, World Market & Aaron Brothers) (\$915).

In addition to gift cards, all Mint employees received bonuses averaging \$1,266 each for achieving performance goals in FY 2002.

Other gifts that may be improper are gifts to contractors. We identified \$546 of these type transactions. *CFO-PROC-10* authorizes the giving of Mint-related products to contractor staff not to exceed \$100. *CFO-PROC-10* states, *The Mint's unique Public Enterprise Fund and procurement authorities allow the giving of promotional items that promote and further the mission of the Mint*. This justification does not meet the necessary expense doctrine. Being awarded the contract already rewards contractors.

The Mint Purchase Card Handbook instructs cardholders not to purchase gifts for separating employees. Despite this prohibition, we found Mint proof sets, which totaled \$36, being purchased for a retiring employee.

Travel Expenses. We found five transactions that were business travel that should have been placed on an individual's travel card. Three of these purchases were cardholders who were making travel arrangements for their supervisor. While one of these had the charge credited, the other two remained uncorrected.

Gasoline and Auto Repairs. We found 11 transactions involving prohibited gasoline and oil purchases. Further inquiries indicated that these purchases were for legitimate purposes (gas for maintenance equipment, rental vehicles used in a non-travel status capacity, and when a vehicle's Fleet card malfunctioned). However, we also noted 11 auto repair transactions that cardholders should have charged to the vehicles' Fleet card. We reviewed five of these transactions totaling \$2,146 in Washington and none had documentation. Therefore, we could not determine what vehicles were repaired or what the chargers were for.

Ammunition. A receipt from Gilbert Indoor Range lists ammunition as being purchased. Five other purchases from shooting ranges or firearm vendors lack itemized receipts, which indicate the possibility of more improper ammunition purchases. A \$1,123 purchase at Sigarms, a weapons vendor, did not have an itemized receipt.

Improper Printing Charges. Treasury Directive 78-01, *Printing and Publishing Management Program*, prohibits the use of the Government purchase card to obtain printing and duplicating services, except for authorized purchases from the Government Printing Office (GPO) or purchases covered by a waiver. We identified over \$72,000 in printing and duplicating services expenditures with no evidence that the Mint had obtained waivers. Of this amount, cardholders outside of the printing and graphics and procurement offices (both have contracting authority for printing purchases) spent approximately \$45,000. By using a purchase card to acquire printing and duplicating services, the Mint is not complying with Treasury policy. Also, cardholders who

independently select their own source for printing services may not be achieving economies of scale.

Recommendation

The Director of the Mint should:

8. Re-emphasize the duties and responsibilities of AOs and APCs with particular attention to the various restrictions and prohibitions against improper purchase transactions like gifts to nonemployees.

Management Response

The Mint agrees with the recommendation. The Mint APC issues a Purchase Card Handbook to each cardholder annually. The Handbook serves as a guide and references agency-wide and other policies regarding proper use of the purchase card. The 2004 Handbook is scheduled for issuance and distribution in February 2004. In addition, the Mint no longer gives promotional items to contractors or their employees.

OIG Evaluation

We believe this recommendation to have a management decision. In the draft report we referenced GAO's *Principles of Appropriations Law* in the context that revolving funds should be treated as appropriated funds and, as such, expenditures should be justified and contribute to the Mint's performance. Although GAO's *Principles of Appropriations Law* is not binding on executive branch agencies, the guidance found in these principles reflect good business practices for any program or operation.

Finding 4

The Training Program Needs To Be Enhanced

APCs are responsible for ensuring that participants of the purchase card program are properly trained. The Washington APC states when she issues a new card, she meets with the cardholder, gives them the Mint Purchase Card Handbook, and tells them to read the

material. This training may not be adequate for all cardholders. Of the cardholders interviewed in Washington, 30 percent stated that they felt that the training was inadequate. Approving Official training appeared less clear. While all current AOs recently received refresher training, it is not clear whether these individuals had any basic training before then. We believe incorporating many of the practices identified in the online GSA SmartPay training module could strengthen the Mint's purchase card program. This online training program was compared to the Mint's Purchase Card Handbook. The SmartPay online training included many important internal controls that the Mint Handbook lacks, including:

- 1) Stresses that the only authorized user is the cardholder.
- 2) Outlines cardholder responsibilities, including maintaining a purchase log.
- 3) Addresses standards of ethical conduct.
- 4) Assists cardholders in avoiding state taxes by referring them to a website with each state's tax exemption letter.
- 5) When placing orders by phone, fax, or online, cardholders are told to make sure an itemized shipping document or invoice is included in the shipment.
- 6) The date an item is received is to be recorded in a log.
- 7) States cardholders may be liable for unapproved purchases.
- 8) States that cardholders should reconcile credits back to the original invoice.
- 9) States *"neither permanent nor temporary single and monthly purchase card dollar limits can ever be higher than a cardholder's Delegation of Authority."*

The Washington APC says she spends 5% of her time managing the program and believes that the program is well managed.

Recommendation

The Director of the Mint should:

9. Develop more comprehensive training materials and written guidance for all those participants in the Purchase Card Program. Once developed, Headquarters personnel should ensure consistent compliance nationwide.

Management Response

The Mint agrees with the recommendation. The revision to OCFO-PROC-15, due by the end of January 2004, will provide additional guidance. The revised Purchase Card Handbook will be distributed in February 2004. Training issues are being re-evaluated in light of issuance of these new materials, and an enhanced training program is expected to result from this effort.

OIG Evaluation

We believe this recommendation to have a management decision. In its response, the Mint did not provide a planned completion date for the corrective action relating to an enhanced training program.

We also identified additional transactions and other issues for management attention that are listed in Appendix 2. We believe the recommendations stated in this report would satisfactorily correct these weak controls; therefore, we have not recommended additional corrective actions related to these deficiencies.

Conclusion

Although purchase card programs provide efficiency and savings to the Government, they are considered high-risk because there is no pre-approval for making a micro-purchase and the Government is liable for payment. Purchase cards allow the same individual to order, obligate funds, and receive goods and services. Therefore, fraud, abuse and improper transactions may occur if not carefully monitored. An effective purchase card program depends on a good system of controls, adequate training, and management oversight.

* * * * *

We would like to extend our appreciation for the cooperation and courtesies extended to our staff during the review. If you have any questions, please contact me at (202) 927-5904 or Michael Sinko, Audit Manager, at (202) 927-5775.

Thomas E. Byrnes
Director of Manufacturing Audits

Our review objective was to determine if the Mint had adequate internal controls over its Government purchase card program. To achieve our objective, we reviewed applicable laws, regulations, directives, and manuals dealing with the Government purchase card program. We interviewed key Treasury Departmental Offices and GSA personnel involved in the procurement process. We gained access to CitiDirect, Citibank's online database, to review transactions and cardholder data. We also conducted interviews with Mint purchase card coordinators, cardholders, approving officials and accounting staff. We conducted site visits to all six Mint locations, which included

- Headquarters, Washington, D.C.,
- Fort Knox, Kentucky,
- San Francisco, California,
- Denver, Colorado,
- Philadelphia, Pennsylvania, and
- West Point, New York

The scope of our review was all individual transactions posted during FY 2002 (October 1, 2001 through September 30, 2002) thru CitiDirect. The universe consisted of 13,436 transactions, with \$5.4 million in purchases.

To test internal controls over transactions and determine whether expenditures were made in compliance with policies and procedures, were reasonable, and had a valid government need, we selected transactions using three different methods. For each method of selection, we met with the cardholder or in cases of where the cardholder had left the Mint, the holder of the purchase card records. We requested and reviewed related supporting documentation. The three methods are as follows:

1) *Statistical sampling.* We drew a stratified random (statistical) sample of 299 transactions from the total transaction universe of 13,436 for our tests. The results have a sampling precision of 5.6 percent at 95 percent level of confidence. The total value of the sample was \$133,000. We tested for specific control features, such as segregation of duties, evidence of approving official

review, and adequacy of supporting documentation; whether the purchase complied with purchasing policies; and whether the purchases appeared reasonable and had a valid government need. Results from the statistical sample were projected to the population of Mint purchase card transactions for FY 2002.

2) *Judgmental sampling.* We also selected transactions on a nonstatistical basis to allow us to identify transactions that appeared to have a higher risk of being improper, although the results cannot be projected to the overall population of purchases. To select these transactions, we first performed data mining on FY 2002 transactions to identify purchases from certain vendors that would be more likely to be selling unauthorized or personal use item such as food, travel, automotive, florists, jewelers, sporting goods, discount stores, and medical-related. This resulted in 2013 transactions identified, from which we then randomly selected, on a judgmental basis, 66 transactions totaling \$750,000 to test whether these purchases were made for questionable government needs, and whether they complied with selected purchasing policies and procedures. The test results are valid within a 10 percent margin of error at 90 percent confidence level.

3) *Data mining.* We performed data mining of Citibank's database of the Mint's FY 2002 purchase card transactions for indicators of potential noncompliance with established policies and procedures. Specifically, we looked for purchases that exceeded cardholder or convenience check spending limits, split purchases, cardholders with multiple purchase cards, transactions occurring after the cardholder had left the Mint, and vendors that were suspect for selling personal use items (e.g. Linens n Things). We select 236 of these transactions totaling over \$165,000 for review.

Finally, we physically inventoried certain purchases at each location to determine whether goods and services were received and used for government purposes.

We conducted our audit between September 2002 and March 2003 in accordance with generally accepted government auditing standards.

Weak Controls in the Office of Protection

During our review, we noted a high percentage of missing documents, lack of AO signatures and questionable purchases within the Office of Protection. None of the cardholder statements in the Headquarters Office of Protection were signed by the AO.

Other factors that indicate poor internal controls over purchase cards in the Office of Protection include:

- 58 percent of Washington's purchases reviewed in the statistical sample did not have a receipt (the national average was 11 percent).
- None of the Protection cardholders in Washington had purchase logs.
- 42 percent of transactions reviewed in Washington did not have a monthly statement.
- The APC discovered an improper purchase of an outdoor grill that was placed on the Protection patio. The union reimbursed the Mint and the equipment was removed.
- Eleven auto repair payments (totaling \$3,639) that should have been placed on the vehicle's Fleet card were not only paid for with a purchase card but also had no support documents.
- A Protection cardholder held a hotel room for a Mint official with her purchase card; was charged for the room; and later had to have the charge removed from her account.

- One cardholder, who had difficulty finding support documents, stated that someone else in her office actually did the bulk of the purchasing using her purchase card and then expressed that she did not want the responsibility.
- A conference table was purchased for \$1,022 without written authorization. Mint policy states that only cardholders in Procurement or the Office of Business Alignment (OBA) may purchase furniture. The cardholder says they were given verbal permission since the purchase was under \$2500.
- IT equipment costing \$584 was purchased. The cardholder says the Office of Information Technology (OIT) gave them verbal permission; however, we could not identify any written authorization. Mint policy states that only Procurement and OIT may purchase IT equipment.
- A sporting goods store charge, which the cardholder says were registration fees for two Fort Knox officers to participate in the Police Olympics (\$204), had no supporting documentation.
- The officer who had purchased ammunition stated that she was unaware of any restrictions on that type of purchase.
- Officers attended a lunch at a restaurant for a law enforcement meeting (\$131). The Mint food purchase policy does not extend to providing food or drink in restaurants. While this purchase occurred at West Point, a Mint official in Washington directed the meeting.

In addition to the above issues, we questioned the payment of membership fees/dues. Appropriated funds may not be used to pay membership fees of an employee in a society or association, regardless of the resulting benefit to the agency. This prohibition does not apply if the fee is a necessary cost directly related to training or if the membership is in the name of the agency.

Examples of membership fees/dues paid within the Office of Protection are International Association of Law Enforcement (\$50), International Association of Chiefs of Police (\$100) and Rocky Mountain Tactical (\$50). In the latter example, a convenience check was made out to the employee for reimbursement.

The cause of these deficiencies, in our opinion, is poor oversight by the AO, and indicates a need for increased training of Office of Protection cardholders and the AO, as well as increased oversight by the APC to ensure these deficiencies do not reoccur.

Support Documents Not Sent to the Accounting Office

A system of good internal controls, which is mandated in the TFM, requires cardholders' statements to be submitted to the designated billing office within a time frame that allows them to process and pay the consolidated invoice. While the Prompt Payment Act permits payment of the consolidated invoice in a timely manner, even if all cardholder statements are not received, this should be the exception not the norm. We found that Mint headquarters did not require the Accounting Office to receive any signed cardholder statements or support documents during FY 2002. As a result, payments were made without adequate assurance that they were proper.

On December 10, 2001, Treasury Office of Procurement issued AMAR 02-01-Mint, which cited the Mint for not properly tracking purchase card purchases to the appropriate accounts. It recommended that the Accounting Office notify the APC on a monthly basis about cardholder statements that are not received in a timely manner. The report recommended that the purchase card policy PROC-15 be amended to require monthly review and approval of all card statements by the AO. Not only has PROC-15 not been amended, but, as stated earlier, the Accounting Office did not receive any cardholder statements for FY 2002 at this location. However in July 2002, the Mint issued a standard operating procedure (SOP) that complies with the Treasury Office of Procurement's recommendation. The SOP gives cardholders five business days once statements are available online to submit their signed statements, purchase logs and receipts to the Accounting Office. Cardholders who fail to submit required documents in a timely manner will have their cards revoked.

Working Lunches

According to GAO's *Principles of Appropriation Law*, furnishing free food to employees at their official duty station, even when they are working under unusual circumstances, is not a permissible practice. Furthermore, furnishing free food might violate 5 USC 5536, which prohibits an employee from receiving compensation in addition to the pay and allowances fixed by law. The National Partnership Council (NPC) is comprised of Mint Directors, Plant Managers and Union Presidents and meets periodically throughout the year. Food costs incurred for these meetings approximate \$400 for working lunches and \$200 for refreshments. The Council participants are either on travel and have per diem to pay for food, or are at their own duty station where they are responsible for their own meals.

Photo Developing

The general rule is that photographs of individual government employees are a personal expense not chargeable to appropriated funds in the absence of specific statutory authority. However, the expense is permitted where it clearly constitutes a means of affecting a proper agency function and disallowed where adequate justification does not exist. For example, photos taken at events and distributed as mementos are disallowed as personal gifts.

When we isolated photo-developing transactions using the merchant category code, we found nearly \$5,700 worth of purchases. Of these, over \$2,000 were at *Tech World One Hour Photo*. The actual amount spent on photo development is higher because these charges are also classified under other less specific merchant types such as drug stores.

Appendix 3
Management Response



DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220

JAN 16 2004

MEMORANDUM FOR THOMAS E. BYRNES
DIRECTOR OF MANUFACTURING AUDITS

FROM: Jay M. Weinstein *JM Weinstein*
Associate Director/Chief Financial Officer

SUBJECT: Draft Audit Report "Control Weaknesses and Poor
Management Oversight in the Mint's Purchase Card Program"

The United States Mint has reviewed the Office of Inspector General's (OIG) draft audit report entitled, "Control Weaknesses and Poor Management Oversight in the Mint's Purchase Card Program." The following comments are forwarded for your consideration.

We appreciate the OIG's observations and recommendations on a number of potentially significant controls issues from the 2001-2002 period. We also thoroughly agree with the OIG report that, "...it is important that agencies have adequate internal controls in place to protect the Government from fraud, waste, and abuse." However, we believe it important to remind readers of the report that they should not rely on it to give them a completely accurate portrayal of the level of existing United States Mint purchase card program controls. Significantly, the audit covered transactions that occurred in fiscal year 2002 (October 1, 2001 through September 30, 2002). Since that time, the United States Mint has strengthened the controls over its purchase card program through improved training and issuance of new policies regarding monitoring, tracking, and approval of transactions, obtaining receipts, use of a purchase card log, and maintenance of records.

In the *Background* section, as well as Finding 1, the report implies that the United States Mint believes that it does not need to implement and enforce the internal controls required by Treasury Directive (TD) 76-04 because the United States Mint is exempt from TD 76-04. To the contrary, although TD 76-04 is not applicable to the United States Mint,¹ the agency firmly embraces the need for strong internal controls—including

¹ The provisions of TD 76-04, which governs Treasury procurements and public contracts, are not applicable to the procurement of goods and services necessary for carrying out United States Mint programs and operations. See 31 U.S.C. § 5136 (United States Mint Public Enterprise Fund statute). Significantly, TD 12-11 (Procurement Authority), paragraph 4a, specifically states that applicable statutory and regulatory provisions that limit the procurement authority delegated to other Treasury bureaus "shall not affect the exemption established with respect to the United States Mint in 31 U.S.C. 5136." This exemption includes "regulations issued by the Department of the Treasury including, but not limited to, 48 CFR Chapter 10." See TD 12-11, para. 3e.

the types of internal controls that TD 76-04 mandates for other Treasury bureaus—and has worked to improve the oversight of its purchase card program. The United States Mint acknowledges that best management practices require sound management controls for all agency programs, and indeed, to date, we have implemented many of the controls mandated by the above Treasury directives and are working to implement any additional controls deemed necessary.

The United States Mint disagrees with the OIG reference to the treatment of revolving funds as appropriated funds in Finding 3, under the subheading of “*Gifts and Gift Certificates*.” In *AINS, Inc. v. United States*,² the Court of Federal Claims rejected this notion, stating, “To consider all ‘revolving’ funds or ‘continuing appropriations’ as appropriated funds, is based on the erroneous view that Congress cannot create special funds and self-financing programs distinct and isolated from the general Treasury funds and, more important in our case, from the general obligations of the United States.”³ The Court went on to conclude that even though the United States Mint’s Public Enterprise Fund is a revolving fund, it nonetheless is a nonappropriated fund instrumentality.⁴ Accordingly, although we do not take issue that many of the concepts outlined in the GAO’s *Principles of Appropriations Law* are sensible precepts for the use of all public funds, the general appropriations law doctrine in the GAO’s “Redbook” actually does not apply to the United States Mint. Therefore, we believe that a more accurate statement regarding the United States Mint’s expenditures in direct support of agency functions would be as follows:

“United States Mint expenditures must make a direct contribution to the performance of the agency’s functions and are to be justified under the PEF provision that ‘all expenses incurred by the Secretary of the Treasury for operations and programs of the United States Mint [must be those that] the Secretary of the Treasury determines, in the Secretary’s sole discretion, to be ordinary and reasonable incidents of Mint operations and programs.’”

In Finding 3, “*Improper and Questionable Purchases Are Not Identified and Addressed*,” the report notes, regarding the issue of giving non-merit gifts to employees, that CFO-PROC-10 states, “*The Mint’s unique Public Enterprise Fund and procurement authorities allow the giving of promotional items that promote and further the mission of the Mint.*” It should be noted that, subsequent to the period covered by the audit, this portion of CFO-PROC-10 was eliminated, and that the United States Mint no longer gives promotional items to contractors or their employees.

² *AINS, Inc. v. United States*, No. 02-133C (Fed. Cl. May, 23, 2003).

³ *Id.* at 22.

⁴ *Id.* at 29.

Appendix 3 Management Response

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We agree with the OIG's recommendations regarding card sharing, secure storage of cards, the establishment of annual review and record maintenance guidelines, cardholder liabilities, standards of ethical conduct, and dollar limits for individual purchase cardholders. A revision to the United States Mint's agency-wide purchase card policy is currently going through final clearance and will be issued by the end of January 2004. We believe this revised policy will satisfy the OIG's recommendations and further strengthen the controls over our purchase card program. We will forward a copy of the revised policy to the OIG upon issuance. In addition, we have attached our responses to the individual report recommendations.

We appreciate the opportunity to comment on this draft report. I am requesting that you include our complete response in your final report. If you have any questions, please do not hesitate to call me.

Attachment

*Draft Report: "Control Weaknesses and Poor Management
Oversight in the Mint's Purchase Card Program"
Mint Response to Specific Recommendations*

**Finding 1 Inadequate Controls Leaves the Mint Vulnerable to Misuse and
Potentially Fraudulent Purchase Card Transactions**

Recommendations

The Assistant Director for Procurement should:

1. Establish annual review and record maintenance guidelines to each individual APC.

United States Mint Response: Upon issuance, the revision to the United States Mint's Procurement Policy, OCFO-PROC-15 will mandate an annual review by each local purchase card coordinator to ensure purchases are made in accordance with the policy and that proper documentation is maintained for each purchase. Cardholders will be apprised of their responsibilities in this matter.

2. Instruct each individual APC to contact and inform AOs of improper transactions and hold them accountable for their cardholders. Also have a policy in place requiring documentation of offense and establish disciplinary guidelines.

United States Mint Response: Upon issuance, the revision to OCFO-PROC-15 will identify appropriate disciplinary actions to be taken by the Associate Directors, supervisors, and managers. If the appropriate officials do not take action within 10 days of notification, the matter will be brought to the attention of the United States Mint's Chief Financial Officer. Repeated misuse may lead to the cancellation of the purchase card.

3. Prohibit card sharing.

United States Mint Response: Upon issuance, the revision to OCFO-PROC-15 will prohibit the sharing of purchase cards among employees. The revised policy will require that emergency purchase needs be brought to the attention of the servicing Procurement office for assistance.

4. Require that each cardholder acknowledge, in writing, that they have been informed of their responsibilities, purchase card limits, and the name of their approving official.

United States Mint Response: The United States Mint plans to address this issue although not as an official delegation of authority. In lieu of the delegation, the United States Mint plans to include a tear-out sheet in the 2004 Purchase Card Handbook to serve as a signatory audit trail. By signing this sheet, each cardholder will acknowledge he or she has been informed of his or her responsibilities, card limits and the name of his or her approving official.

5. Train cardholders to store their purchase cards in a safe, or at the very least a locked drawer at work, when not in use.

United States Mint Response: Upon issuance, the revision to OCFO-PROC-15 will require purchase card holders to keep their purchase card in a locked drawer in their office when not in use.

Finding 2 Purchase Card Transactions Are Not Properly Recorded and Documented

Recommendations

The Assistant Director for Procurement should:

6. Modify policies and procedures instructing cardholders to make every effort to obtain and retain original, itemized receipts, even if it is under \$100. Cardholders should be instructed to sign receipts indicating that all items were received. AOs should not approve purchases exceeding \$100 without a receipt.

United States Mint Response: Mint-Wide Policy Memo CFO-ACCT-06/13/03 directs cardholders to obtain receipts for purchases and submit these receipts along with their purchase card log and bank statement to their approving official. Upon issuance, the revision to OCFO-PROC-15 will strengthen this requirement by directing cardholders to obtain a receipt for all purchases, regardless of the dollar amount. In addition, the revised OCFO-PROC-15 will re-emphasize the requirement that cardholders maintain and provide copies of all supporting documentation to their respective approving official.

7. Conduct periodic reviews to ensure that cardholders are completing their purchase logs in a timely manner.

Mint Response: Mint-Wide Policy Memo CFO-ACCT-06/13/03 directs the approving official to review and confirm the accuracy of each cardholder's purchase card log. The Approving Official's signature authorizes payment to the card issuer by Accounts Payable. In addition, the revision to the United States Mint's Procurement Policy, OCFO-PROC-15, will require the timely submission of the documentation required for payment to the Office of Accounting.

Finding 3 Improper and Questionable Purchases Are Not Identified and Addressed

Recommendations

The Director of the Mint should:

8. Reemphasize the duties and responsibilities of AOs and APCs with particular attention to the various restrictions and prohibitions against improper purchase transactions like gifts to non-employees.

United States Mint Response: The United States Mint Agency Program Coordinator issues a Purchase Card Handbook to each cardholder annually. The Handbook serves as a guide and references agency-wide and other policies regarding proper use of the purchase card. The 2004 Handbook is scheduled for issuance and distribution in February 2004.

Finding 4 The Training Program Needs To Be Enhanced

Recommendations

The Director of the Mint should:

9. Develop more comprehensive training materials and written guidance for all those participants in the Purchase Card Program. Once developed, Headquarters personnel should ensure consistent compliance nationwide.

United States Mint Response: As discussed above, the revision to OCFO-PROC-15, will provide additional guidance, and the revised Purchase Card Handbook will be distributed in February 2004. Training issues are being re-evaluated in light of issuance of these new materials, and an enhanced training program is expected to result from this effort.

Appendix 4
Major Contributors To The Report

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The Department of the Treasury

Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control
Office of Budget

The U.S. Mint

Director
Associate Director/Chief Financial Officer
Deputy Associate Director/Deputy CFO
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